



The Colleges of the Seneca

Financial Statements

May 31, 2006 and 2005

Report of Independent Auditors

To the Board of Trustees
The Colleges of the Seneca

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of The Colleges of the Seneca (the "Colleges") at May 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Colleges' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further discussed in Note 6 to the financial statements, the Colleges adopted Financial Accounting Standard Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of Financial Accounting Standards Board Statement No. 143.



September 13, 2006

The Colleges of the Seneca
Statements of Financial Position
May 31, 2006 and 2005

	2006	2005
Assets		
Cash and cash equivalents	\$ 21,879,810	\$ 17,863,217
Short-term investments	4,429,054	4,367,637
Deposits with trustee of debt obligations	1,418	6,089,230
Accounts receivable, net of allowance of \$321,000 and \$311,000 in 2006 and 2005, respectively	1,248,860	1,580,282
Notes receivable, net of allowance of \$128,000 in 2006 and 2005	1,685,214	1,894,986
Inventories	475,120	472,152
Contributions receivable	22,436,205	8,381,065
Long-term investments	157,308,687	146,093,532
Land, buildings and equipment, net	105,193,555	97,486,536
Other assets	2,007,608	1,871,843
	<u>\$ 316,665,531</u>	<u>\$ 286,100,480</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 6,794,332	\$ 6,371,163
Deferred revenue and deposits	2,818,065	2,765,724
Deferred giving liabilities	2,189,529	2,040,955
Refundable advances from government loan programs	2,203,188	2,225,106
Asset retirement obligations	1,750,685	-
Borrowings	37,422,056	39,786,709
	<u>53,177,855</u>	<u>53,189,657</u>
Net assets		
Unrestricted	143,763,713	128,889,074
Temporarily restricted	33,908,530	24,666,587
Permanently restricted	85,815,433	79,355,162
	<u>263,487,676</u>	<u>232,910,823</u>
Total net assets	<u>263,487,676</u>	<u>232,910,823</u>
Total liabilities and net assets	<u>\$ 316,665,531</u>	<u>\$ 286,100,480</u>

The accompanying notes are an integral part of the financial statements.

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2006
(with comparative totals for 2005)

	2006			Total	2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Revenues					
Tuition and fees, net of scholarships	\$ 37,248,672			\$ 37,248,672	\$ 33,878,734
Sales and services of auxiliaries	15,449,506			15,449,506	14,069,347
Government grants and contracts	2,033,166			2,033,166	2,065,477
Private gifts and grants	4,380,822	1,582,676		5,963,498	4,195,889
Endowment spending	6,368,238	151,727		6,519,965	6,274,438
Other investment income	1,567,074	138,881		1,705,955	1,138,295
Other	186,156	259		186,415	181,030
Net assets released from restrictions	130,060	(130,060)		-	-
Total operating revenues	<u>67,363,694</u>	<u>1,743,483</u>	<u>-</u>	<u>69,107,177</u>	<u>61,803,210</u>
Operating Expenses					
Instruction	23,322,560			23,322,560	22,016,522
Academic support	7,065,087			7,065,087	7,268,069
Student services	14,230,069			14,230,069	13,468,643
Institutional support	10,506,483			10,506,483	9,612,063
Auxiliaries operations	12,006,682			12,006,682	10,511,479
Total operating expenses	<u>67,130,881</u>	<u>-</u>	<u>-</u>	<u>67,130,881</u>	<u>62,876,776</u>
Change in net assets from operating activities	<u>232,813</u>	<u>1,743,483</u>	<u>-</u>	<u>1,976,296</u>	<u>(1,073,566)</u>
Nonoperating Revenues (Expenses)					
Investment return	10,367,242	1,051,584	67,712	11,486,538	6,394,980
Capital gifts	928,192	12,748,048	6,173,472	19,849,712	6,335,677
Capital campaign expense	(914,177)			(914,177)	(609,797)
Other revenue (expense), net	72,012			72,012	(154,419)
Change in value of deferred giving arrangements		(224,100)	81,257	(142,843)	(162,725)
Net assets with changed restrictions	5,392,310	(5,530,140)	137,830	-	-
Net assets released from restrictions	546,932	(546,932)		-	-
Change in net assets from nonoperating activities	<u>16,392,511</u>	<u>7,498,460</u>	<u>6,460,271</u>	<u>30,351,242</u>	<u>11,803,716</u>
Increase in net assets before cumulative effect of a change in accounting principle	16,625,324	9,241,943	6,460,271	32,327,538	10,730,150
Cumulative effect of change in accounting principle	<u>(1,750,685)</u>			<u>(1,750,685)</u>	<u>-</u>
Increase in net assets	14,874,639	9,241,943	6,460,271	30,576,853	10,730,150
Net assets					
Beginning of year	<u>128,889,074</u>	<u>24,666,587</u>	<u>79,355,162</u>	<u>232,910,823</u>	<u>222,180,673</u>
End of year	<u>\$ 143,763,713</u>	<u>\$ 33,908,530</u>	<u>\$ 85,815,433</u>	<u>\$ 263,487,676</u>	<u>\$ 232,910,823</u>

The accompanying notes are an integral part of the financial statements.

The Colleges of the Seneca
Statement of Activities
Year Ended May 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Tuition and fees, net of scholarships	\$ 33,878,734			\$ 33,878,734
Sales and services of auxiliaries	14,069,347			14,069,347
Government grants and contracts	2,065,477			2,065,477
Private gifts and grants	3,773,525	422,364		4,195,889
Endowment spending	6,172,137	102,301		6,274,438
Other investment income	1,132,874	5,421		1,138,295
Other	180,432	598		181,030
Net assets released from restrictions	324,533	(324,533)		-
Total operating revenues	<u>61,597,059</u>	<u>206,151</u>	<u>-</u>	<u>61,803,210</u>
Operating Expenses				
Instruction	22,016,522			22,016,522
Academic support	7,268,069			7,268,069
Student services	13,468,643			13,468,643
Institutional support	9,612,063			9,612,063
Auxiliaries operations	10,511,479			10,511,479
Total operating expenses	<u>62,876,776</u>	<u>-</u>	<u>-</u>	<u>62,876,776</u>
Change in net assets from operating activities	<u>(1,279,717)</u>	<u>206,151</u>	<u>-</u>	<u>(1,073,566)</u>
Nonoperating Revenues (Expenses)				
Investment return	5,094,361	1,248,959	51,660	6,394,980
Capital gifts	108,556	3,514,071	2,713,050	6,335,677
Capital campaign expense	(609,797)			(609,797)
Other revenue (expense), net	(154,419)			(154,419)
Change in value of deferred giving arrangements	7,436	(230,825)	60,664	(162,725)
Net assets released from restrictions	180,697	(180,697)		-
Change in net assets from nonoperating activities	<u>4,626,834</u>	<u>4,351,508</u>	<u>2,825,374</u>	<u>11,803,716</u>
Net increase in net assets	3,347,117	4,557,659	2,825,374	10,730,150
Net assets				
Beginning of year	<u>125,541,957</u>	<u>20,108,928</u>	<u>76,529,788</u>	<u>222,180,673</u>
End of year	<u>\$ 128,889,074</u>	<u>\$ 24,666,587</u>	<u>\$ 79,355,162</u>	<u>\$ 232,910,823</u>

The accompanying notes are an integral part of the financial statements.

The Colleges of the Seneca
Statements of Cash Flows
Years Ended May 31, 2006 and 2005
Increase (Decrease) in Cash and Cash Equivalents

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 30,576,853	\$ 10,730,150
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,894,100	4,537,252
Cumulative effect of change in accounting principle	1,750,685	-
Provision for uncollectible contributions receivable	322,268	79,628
Loss on disposal of land, buildings and equipment	229,340	119,876
Change in value of deferred giving arrangements	148,574	33,381
Contributions restricted for long-term investment	(4,850,639)	(8,416,648)
Interest and dividends restricted for long-term investment	(56,811)	(59,947)
Net realized and unrealized gains on investments	(15,090,749)	(10,146,145)
Change in assets and liabilities:		
Accounts receivable	331,422	1,188,540
Inventories	(2,968)	56,535
Contributions receivable	(14,377,408)	2,029,388
Other assets	(231,681)	14,341
Accounts payable and accrued liabilities	920,002	(392,252)
Deferred revenues and deposits	52,341	543,281
Net cash provided by operating activities	<u>4,615,329</u>	<u>317,380</u>
Cash flows from investing activities		
Acquisition of land, buildings and equipment, net	(13,250,029)	(14,670,010)
Decrease in deposits with trustee of debt obligation	6,087,812	10,872,205
Notes issued	(340,062)	(328,557)
Proceeds from note collections	549,834	448,510
Proceeds from sale of investments	71,751,856	60,147,895
Purchases of investments	<u>(67,937,679)</u>	<u>(58,556,589)</u>
Net cash used in investing activities	<u>(3,138,268)</u>	<u>(2,086,546)</u>
Cash flows from financing activities		
Proceeds from contributions for		
Investment in endowment	3,416,508	4,047,380
Investment in plant	1,326,052	4,267,666
Investment subject to deferred giving arrangements	108,079	101,602
Interest and dividends restricted for reinvestment	56,811	59,947
(Decrease) increase in refundable advances from government loan programs	(21,918)	22,448
Payment of long-term debt	<u>(2,346,000)</u>	<u>(2,221,000)</u>
Net cash provided by financing activities	<u>2,539,532</u>	<u>6,278,043</u>
Net increase in cash and cash equivalents	4,016,593	4,508,877
Cash and cash equivalents		
Beginning of year	<u>17,863,217</u>	<u>13,354,340</u>
End of year	<u>\$ 21,879,810</u>	<u>\$ 17,863,217</u>
Supplemental data		
Interest paid including capitalized interest of \$250,000 in 2005	\$ 2,031,793	\$ 2,288,824
Gifts in kind	109,105	-
Non-cash financing activities		
Change in construction related payables	(496,833)	1,353,877

The accompanying notes are an integral part of the financial statements.

The Colleges of the Seneca

Notes to Financial Statements

May 31, 2006 and 2005

1. Summary of Significant Accounting Policies

Basis of Presentation

Hobart and William Smith Colleges are coordinate Colleges joined under the corporate identity of The Colleges of the Seneca ("the Colleges"). The accompanying financial statements of the Colleges have been prepared on the accrual basis of accounting.

Net Asset Classes

The accompanying financial statements present information regarding the Colleges' financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by the presence or absence of donor restrictions.

Unrestricted net assets may be designated for specific purposes by the Colleges or may be limited by contractual agreements with outside parties. Unrestricted net assets include operating, plant, and internally designated plant and funds functioning as endowment funds.

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets consist principally of gifts restricted by donors for capital projects and other operating purposes, deferred giving arrangements and unconditional pledges receivable that are not permanently restricted.

Permanently restricted net assets are subject to donor stipulations requiring that they be maintained permanently, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for a restricted purpose such as scholarships or professorships. Permanently restricted net assets consist principally of permanent endowment principal balances, including unconditional pledges restricted for true endowment.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets as "net assets released from restrictions". Temporarily restricted contributions received and expended for the restricted purpose in the same fiscal year are recorded as unrestricted net revenues.

Nonoperating activities reflect transactions of a capital nature, that is, contributions to be used for facilities and equipment or to be invested by the Colleges to generate a return that will support operations.

Contributions

Contributions, including unconditional pledges, are recognized as revenues when donors' commitments are received. Conditional pledges are recognized as revenues when the conditions are substantially met. Unconditional pledges are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted. Contributions specified for the acquisition or construction of long-lived assets are reclassified from temporarily restricted to unrestricted net assets when the assets are placed in service.

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May 31, 2006 and 2005

Costs incurred by the Colleges in obtaining donor contributions were approximately \$2,835,000 and \$2,415,000 in 2006 and 2005, respectively. Approximately \$914,000 and \$610,000 for 2006 and 2005, respectively, of those costs were associated with the activities of the current capital campaign.

Investments and Investment Income

Investments are recorded at fair value. Fair value is determined principally on the basis of quoted market prices. The majority of limited partnership investments are recorded at estimated fair value (for which the underlying investments are principally valued at market) using information obtained from the general partner or investment manager for the respective funds as of May 31, 2006 and 2005. The Colleges believe that the recorded amount of these limited partnership investments is a reasonable estimate of fair value.

Under the terms of certain limited partnership agreements, the Colleges are obligated periodically to advance additional funding for private equity and real estate investments. At May 31, 2006, the Colleges had commitments of approximately \$2,170,000 for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The Colleges maintain sufficient liquidity in their investment portfolio to cover such calls.

Realized gains and losses on the sale of investments are determined using the specific identification method. Investment return is reported in the statement of activities and the notes to the financial statements, net of management and custodial fees of approximately \$1,408,000 and \$1,318,000 for 2006 and 2005, respectively and performance fees of approximately, \$560,000 and \$614,000, for 2006 and 2005, respectively.

Total Return Spending Policy

The Colleges employ a total return spending policy which recognizes for spending purposes income equal to a percentage of a multi-year moving average of the unit value of pooled investments. The percentage was 5.2% and 5.3% in 2006 and 2005, respectively. In any given year, the amount availed from the pooled investments may, therefore, be greater or less than the dividend or interest yield for that year. Investment returns earned in excess of the spending policy are classified as nonoperating revenue; any shortfall is made up from historically earned capital appreciation.

Deferred Giving Arrangements

The Colleges' deferred giving arrangements consist primarily of gift annuities, pooled life income funds and charitable remainder trusts. Deferred giving assets are included in long-term investments at their fair value. Contribution revenues are recognized at the date the arrangements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or beneficiaries. The liabilities are adjusted during the term of the arrangements for changes in the value of the assets and changes in the estimated present value of future cash outflows and other changes in the estimates of future benefits. The deferred giving liabilities represent the net present value of future cash outflows over the beneficiary's life expectancy as required by the deferred gift agreements.

Funds Held in Trust by Others

Contributions receivable includes funds held in trust by others which represent resources neither in the possession nor under the control of the Colleges, but paid and administered by outside trustees, with the Colleges deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated fair value of the assets which approximates the net

The Colleges of the Seneca

Notes to Financial Statements

May 31, 2006 and 2005

present value of the future cash flows when the irrevocable trust is established or the Colleges are notified of its existence and are subsequently adjusted for annual changes in the fair value.

Land, Buildings and Equipment

Grounds, site improvements, buildings, equipment and library books are recorded at cost at the date of acquisition or their fair value at the date of donation, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the site improvements (20 years), buildings (15-45 years), equipment (5-20 years) and library books (20 years).

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Cash and Cash Equivalents

Cash investments with a maturity of three months or less when purchased are reported as cash equivalents, unless they are part of long-term investment pools.

Income Taxes

The financial statements do not provide for income taxes as the Colleges are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Allocation of Certain Expenses

The statements of activities present expenses by functional classification. Operation and maintenance of plant, depreciation and interest expense are allocated based on square footage.

Deposits with Trustee of Debt Obligations

Deposits with trustee of debt obligations represent debt service and certain reserve funds required by the trustee. Included in deposits with trustee is \$5,877,277 of unexpended bond proceeds at May 31, 2005.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. The Colleges' significant estimates made in the preparation of these financial statements include, but are not limited to, valuation of investments, useful lives and estimated net realizable value of accounts and contributions receivable. Actual results could differ from these estimates.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the statement of financial position and the statement of activities.

The Colleges of the Seneca
Notes to Financial Statements
May 31, 2006 and 2005

2. Contributions Receivable

Unconditional contributions receivable at May 31, 2006 and 2005 are restricted by donors predominantly for scholarships and capital projects. They are expected to be realized in the following periods:

	2006	2005
Less than one year	\$ 18,178,625	\$ 4,050,892
One year to five years	<u>5,072,020</u>	<u>4,765,557</u>
	<u>23,250,645</u>	<u>8,816,449</u>
Less allowance for uncollectibility of approximately \$1,062,000 and \$861,000 and present value discount of approximately \$476,000 and \$323,000	<u>(1,537,657)</u>	<u>(1,184,444)</u>
	<u>21,712,988</u>	<u>7,632,005</u>
Charitable remainder and perpetual trusts	<u>723,217</u>	<u>749,060</u>
	<u>\$ 22,436,205</u>	<u>\$ 8,381,065</u>

3. Investments

Investments are summarized as follows:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 8,468,895	\$ 8,468,895	\$ 2,113,497	\$ 2,113,497
Fixed income	24,290,887	23,636,233	26,957,867	27,460,198
Common stock	47,194,655	52,846,306	45,619,655	50,237,342
Limited partnerships	<u>48,121,920</u>	<u>76,786,307</u>	<u>48,370,111</u>	<u>70,650,132</u>
	<u>\$ 128,076,357</u>	<u>\$ 161,737,741</u>	<u>\$ 123,061,130</u>	<u>\$ 150,461,169</u>

Cash and cash equivalents consist primarily of interest bearing money market accounts. Certain assets are pooled on a fair value basis; purchases or dispositions are at fair value per unit at the time in which the transaction takes place. The following table summarizes information on the pooled investments.

	2006	2005
Pooled investments		
Fair value	\$ 146,030,788	\$ 132,608,993
Cost	\$ 112,770,399	\$ 105,857,823
Fair value per unit	\$3.56	\$3.29
Spending rate per unit	0.16	0.16

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Notes to Financial Statements
May 31, 2006 and 2005

In accordance with its spending policy on endowment and other investments the Colleges' return on investments was as follows:

	2006	2005
Dividends and interest income	\$ 4,621,709	\$ 3,661,568
Net realized and unrealized gains	15,090,749	10,146,145
Total return on investments	<u>19,712,458</u>	<u>13,807,713</u>
Investment return designated for current operations	<u>8,225,920</u>	<u>7,412,733</u>
Investment return greater than amounts designated for current operations	<u>\$ 11,486,538</u>	<u>\$ 6,394,980</u>

4. Endowment Funds

Endowment funds generally represent donor restricted gifts and matured bequests, to provide a permanent endowment, including a permanent income stream. The portion of permanent endowments that may not be expended are classified as permanently restricted net assets. Board designated endowments (i.e. funds functioning as endowments) are internally designated funds that are invested to provide income for a long but unspecified period. Board designated endowments are not donor restricted and are classified as unrestricted net assets.

Endowment funds consist of:

	2006	2005
Funds functioning as endowment	\$ 67,396,626	\$ 59,821,524
Term endowment - temporarily restricted net assets	3,185,170	3,485,395
Permanent endowment - permanently restricted net assets	84,939,893	78,658,321
	<u>\$ 155,521,689</u>	<u>\$ 141,965,240</u>

These endowment funds include \$6,087,755 and \$3,416,048 in amounts pledged and not received in 2006 and 2005, respectively. Funds functioning as endowment are comprised of quasi endowment funds totaling \$16,488,479 and \$18,931,051 at May 31, 2006 and 2005, respectively, and cumulative appreciation of permanent endowment funds totaling \$50,908,147 and \$40,890,473 at May 31, 2006 and 2005, respectively.

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Notes to Financial Statements
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5. Land, Buildings and Equipment

The components of land, buildings and equipment, as of May 31, 2006 and 2005 were as follows:

	2006	2005
Grounds	\$ 3,306,254	\$ 3,263,457
Site improvements	8,990,218	7,696,633
Buildings	111,279,463	102,069,762
Equipment	22,344,302	21,285,906
Library books	13,591,537	12,703,444
Construction in progress	3,282,844	4,244,556
	<u>162,794,618</u>	<u>151,263,758</u>
Accumulated depreciation	(57,601,063)	(53,777,222)
	<u>\$ 105,193,555</u>	<u>\$ 97,486,536</u>

Depreciation expense amounted to \$4,816,837 and \$4,459,990 in 2006 and 2005, respectively.

Estimated costs to complete construction in progress at May 31, 2006 are \$2,619,000.

6. Asset Retirement Obligations

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143) was issued in March 2005. This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This Interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Upon adoption of the Interpretation on May 31, 2006, the Colleges recognized asset retirement obligations related to asbestos contamination in buildings. The net result was recorded as a non-cash transition impact of \$1,750,685 which is reported as a cumulative effect of a change in accounting principle in the statement of activities. A liability for conditional asset retirement obligations of \$1,750,685 was recorded in the statement of financial position.

The following table illustrates the effect on changes in net assets from operating activities as if this Interpretation had been applied for the year ended May 31:

	2006	2005
Change in net assets from operating activities	\$ 1,976,296	\$ (1,073,566)
Less: Total interest accretion costs	77,059	75,495
Proforma change in net assets from operating activities	<u>\$ 1,899,237</u>	<u>\$ (1,149,061)</u>

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Notes to Financial Statements
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7. Borrowings

Borrowings consist of the following at May 31:

	Maturity Date	Interest Rate	Original Issue	2006	2005
City of Geneva Industrial Development Agency Revenue Bonds (a):					
Series 1997	2007	4.0 - 5.0%	\$ 18,065,000	\$ 2,145,000	\$ 4,190,000
Series 2001	2031	4.0 - 5.2%	10,120,000	9,415,000	9,600,000
Series 2003A	2033	3.0 - 5.0%	20,000,000	20,000,000	20,000,000
Series 2003B	2023	4.8%	2,115,000	2,095,000	2,115,000
Net bond premium				635,056	653,709
				<u>\$ 34,290,056</u>	<u>\$ 36,558,709</u>
Manufacturers and Traders Trust Company Term Note (b)	2023	6.98%	3,420,000	3,132,000	3,228,000
				<u>\$ 37,422,056</u>	<u>\$ 39,786,709</u>

- (a) The bonds are collateralized by the related property and equipment. In addition, the agreements require the establishment of sinking funds which are included in deposits with trustee of debt obligations.
- (b) Interest on the note is fixed at 6.98% through 2013, at which time the rate becomes variable at LIBOR plus 2% until maturity in 2023.

The following represents payments on bonds payable and term note:

2007	\$ 2,451,000
2008	681,000
2009	742,000
2010	767,000
2011	797,000
Thereafter	<u>31,349,000</u>
	<u>36,787,000</u>
Net bond premium	635,056
	<u>\$ 37,422,056</u>

Lines of Credit

The Colleges maintain a line of credit for \$1,000,000, which was unused during 2006 and 2005.

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Notes to Financial Statements
May 31, 2006 and 2005

8. Student Loan Guarantees

The Colleges offer students a loan option through the Hobart and William Smith Loan Program. Loans are disbursed and administered by an outside lender. The Colleges guarantee the loans when certain conditions of default by the borrowers occur. A liability for an estimate of future guarantees is included in accounts payable and accrued liabilities of approximately \$200,000 and 190,000 at May 31, 2006 and 2005, respectively.

9. Net Tuition and Fees

Tuition and fees revenues and scholarship expenditures are summarized in the following table:

	2006	2005
Tuition and fees	\$ 60,934,987	\$ 55,794,141
Institutionally funded scholarships	(23,253,661)	(21,457,246)
Government funded grants	(432,654)	(458,161)
Net tuition and fees	<u>\$ 37,248,672</u>	<u>\$ 33,878,734</u>

10. Retirement Plan

The Colleges participate in contributory retirement plans administered by the Teachers Insurance Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF) for full-time employees. The Colleges' policy is to accrue the costs of these defined contribution plans currently. Total expense charged to operations relating to these plans was approximately \$2,213,000 and \$2,150,000 for 2006 and 2005, respectively.

The Colleges implemented a phased retirement plan and a retirement plan with postretirement healthcare benefits for faculty. Eligible faculty who elect retirement under the plan with postretirement healthcare benefits and are between the ages of 60 and 65 receive healthcare coverage through the Colleges until they are Medicare eligible. Beginning June 1, 2002 eligible faculty may elect retirement under the plan by June 30 to commence June 30 of the following year (i.e. one year notice).

11. Fair Value of Financial Instruments

Cash

The carrying amount of cash approximates fair value.

Bonds Payable

The following represents estimated fair value of the Colleges' bonds payable at May 31, 2006:

	Carrying Value	Fair Value
Series 1997	\$ 2,145,000	\$ 2,167,694
Series 2001	9,415,000	9,915,073
Series 2003A	20,000,000	21,060,770
Series 2003B	2,095,000	2,151,124
	<u>\$ 33,655,000</u>	<u>\$ 35,294,661</u>

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Notes to Financial Statements
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Notes Receivable

Notes receivable are principally amounts due from students under federally sponsored loan programs which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.